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UNCLAS SECTION 01 OF 04 HANOI 003092

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SENSITIVE

STATE FOR E, EAP/BCLTV, AND EB/TRA  
STATE PASS TO EXIM ROBERT MORIN  
TRANSPORTATION FOR EOPPLER AND DMODESITT  
USDOC FOR ITA/TD/SIF/EALFORD  
FAA FOR AFS 50 AND AIAA 400  
AMEMBASSY BANGKOK FOR TSA SWALLOPPILLAI  
AMEMBASSY SINGAPORE FOR FAA HNESBITT

E.O. 12958: N/A

TAGS: [FAIR](#) [EINV](#) [PREL](#) [VM](#)

SUBJECT: VIETNAM'S AVIATION INDUSTRY TAKES OFF

SENSITIVE BUT UNCLASSIFIED - HANDLE ACCORDINGLY

11. (U) SUMMARY: Vietnam's aviation industry is seeking to catch up with those of other countries in the region. The government has dramatically changed its approach to the industry by allowing foreign carriers to increase their share of the market, but the change is unlikely to harm its domestic carriers. On the contrary, the GVN anticipates robust growth within the sector and has embarked on an ambitious airport development plan to accommodate the increase in air travel through the year 2020. U.S. and Vietnamese carriers are also moving to take advantage of the provisions granted under the United States - Vietnam Air Transport Agreement (ATA) that became effective in December 2003. END SUMMARY.

AN INDUSTRY WITH HIGH GROWTH AND GREAT POTENTIAL  
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12. (U) Vietnamese air transport markets are once again becoming attractive after the regional economic crisis of 1996-1998. From 2001-2002 the aviation industry in Vietnam experienced a growth rate of over 20% in passenger traffic and 30% in cargo traffic. In 2003, 6.9 million passengers traveled through Vietnam's international and domestic airports. The SARS epidemic in early 2003 slowed the high growth rates from those of 2001-02, but the industry recovered in the latter half of 2003 and attained even higher rates of growth in the first half of 2004. With a population of 81 million, annual economic growth rates between 7-8%, and increasing investment and tourism, Vietnam has much potential for future aviation growth. One new trend that will also help spur growth is that with rising incomes more Vietnamese are traveling abroad for leisure.

GVN SHIFTS POLICY TO FAVOR COMPETITION  
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13. (U) The Civil Aviation Administration of Vietnam (CAAV), under the Ministry of Transportation, has been tasked to open the Vietnamese aviation market to foreign carriers. CAAV's long-term goal is to reduce the market share of Vietnamese air carriers to 35%. In 2002, Vietnamese air carriers controlled 46% of the market. Their share declined to 43.8% in 2004. This policy change was not only reflected at the negotiating table with the United States last year, but it is also evident in the practice of allowing foreign carriers to increase their frequencies and seats. CAAV believes that this will boost tourism, support business development, and increase the overall size of the aviation transport market. Vietnam Airlines (VNA) seems to agree with the GVN's assessment of future growth. In preparation for market expansion, they are going ahead with plans to acquire several long and medium range aircraft through purchase and lease agreements in 2005.

VIETNAM'S AIR TRANSPORT MARKET AND VIETNAMESE CARRIERS  
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14. (U) Three Vietnamese air carriers and 20 foreign carriers currently operate at three international and 20 domestic airports in Vietnam. In the first six months of 2004, all 23 airlines carried four million passengers, both international and domestic, and 104,000 tons of cargo, a growth of 34% in passengers and 12.4% in cargo compared to the same period of 2003. Out of nearly 2.5 million passengers flying internationally in the first six months of 2004, Vietnamese carriers carried nearly 1.1 million, achieving a growth rate of 40.9%. Foreign carriers transported the remainder, achieving an even higher growth rate of 44.7%. In the first six months of this year, Vietnamese carriers transported almost 30% of a total of 77,465 tons of cargo for a growth rate of 44.3% over the first six months of 2003. In contrast, cargo transported by foreign carriers only grew by 4.7% over the same period.

15. (U) VIETNAM AIRLINES CORPORATION. VNA was established in 1993 through combining 20 aviation businesses. It currently operates a fleet of 38 aircraft: six B777s, five B767s, 10 A320s, six A321s, nine ATR72s, and two Fokker 70s. In 2005, according to VNA Deputy General Manager of Route and Market Planning, the fleet will grow to well over 40 planes if VNA realizes its plans to lease additional B777s, B767s, A321s, and possibly A330s. VNA is also in the preliminary stages of ordering ten to fifteen B7E7s for possible delivery in 2009. These aircraft will replace the B767s and accommodate continued growth in traffic. In the first six months of this year, VNA's share of domestic traffic increased by 2.1% to 88.3%, and its load factor, or seat occupancy, declined 0.6% to 75.9%. Its share of international traffic increased by 0.3% to 41%, and its load factor fell 2.4% to 58.2%. So far this year, VNA has also opened seven new international routes, all to different destinations within countries in which it already has a presence. VNA operates a total of 30 international routes and 20 domestic routes.

16. (SBU) PACIFIC AIRLINES. Pacific Airlines is the second largest of the three airlines, and VNA owns 86% of the company with the remainder owned by other large state-owned enterprises. Pacific Airlines operates one A320 and two A321s. It shares 11.7% of domestic traffic and 2.8% of international traffic. Its share of these sectors has declined by 2.1% and 1.0% respectively over the same period of last year. However, its load factor has increased by 8.3% on international flights and 5.3% on domestic flights to 70.6% and 77.8% respectively compared to the same period of last year. Pacific Airlines is flying on three international routes and three domestic routes. According to Boeing, Pacific Airlines has discussed the possibility of acquiring B737s.

17. (U) VIETNAM AIR SERVICES COMPANY (VASCO). Vasco is the smallest of Vietnam's three airlines, and it is a wholly owned subsidiary of VNA. VASCO was established mainly as an air taxi service and has recently started to fly short distances from Ho Chi Minh City to the tourist destinations of Con Dao and Ca Mau. The GVN has backed away from an announcement made in early August 2004 that VASCO and the Vietnam National Administration of Tourism (VNAT) would begin to operate a tourist shuttle to a military outpost in the disputed Spratly Islands in early 2005. VASCO had planned to fly VNA's old Russian-built Antonov 38s to a refurbished 600-meter runway at a military outpost in the archipelago.

#### AIRPORT ENLARGEMENT AND MODERNIZATION

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18. (U) Among nearly 2.5 million passengers flying internationally in the first six months of this year, 1,730,000 passengers, accounting for 70% of traffic, used Tan Son Nhat (TSN) airport in Ho Chi Minh City. Another 730,000, accounting for 29% of traffic, used Hanoi's Noi Bai Airport. The remaining 1%, 22,000 passengers, traveled through Danang's international airport in central Vietnam. The year-to-date growth rates of TSN, Noi Bai, and Danang are 65%, 49%, and 32%, respectively. CAAV has already turned down several requests from foreign airlines such as Thai Airways for increased flight frequency to TSN because the airport is running out of capacity on the runways and in terminals. CAAV is in the process of expanding terminals in TSN, but will still have to deal with the limitation of two

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parallel runways that will continue to compel aircraft to approach from only one direction.

19. (U) According to CAAV's airport development plan, in 2010, the three current international airports will have a combined annual capacity of 25 million international and domestic passengers and 580,000 tons of cargo. By 2020, their annual capacity will increase to 35 million passengers and 1.2 million tons of cargo. A new international airport in Dong Nai province, near Ho Chi Minh City, will be built to supplement TSN airport. This airport, with a capacity of 20 million passengers and 1 million tons of cargo, will be completed in 2015. Another international airport at Chu Lai, a former American air base in central Quang Nam province, is being built to serve as a cargo hub. It will have a capacity of 0.6 million passengers and 1 million tons of cargo. It will be complete around 2010. By 2020, its capacity will increase to 1.5 million passengers and 4.5 million tons of cargo.

10. (SBU) Vietnam is rapidly modernizing its flight control operations and integrating into regional systems. The revenue from flight operation services is smaller than that generated by the monopoly air carrier VNA. However, it contributes more to the state budget because the services are low-cost and high yield and air traffic in Vietnam's air space is increasing. In 1992 Vietnam reclaimed from

Thailand the right to operate Flight Information Region (FIR) centers. Vietnam operates two centers, one in Hanoi and one in Ho Chi Minh City. By 2010, Vietnam plans to operate a single center covering the entire country.

#### TAKING ADVANTAGE OF THE AIR TRANSPORT AGREEMENT

11. (U) The United States-Vietnam bilateral ATA became effective in December 2003. American Airlines (AA) was the first U.S. carrier to seek to take advantage of its new provisions. AA applied for permission to operate two-party code-shares with VNA. This application prompted technical assessments on the part of the Federal Aviation Administration (FAA) and the Transportation Security Administration (TSA) to insure that CAAV properly regulates Vietnam's airlines and airports in accordance with safety and security standards set by the International Civil Aviation Organization (ICAO). Technical assistance programs designed to prepare CAAV for the ICAO assessments are currently underway.

12. (SBU) In early 2004, United Airlines (UAL) sought CAAV's approval to advance the provision of the ATA allowing direct flights between the United States and Vietnam via Hong Kong with fifth freedoms (the right to sell tickets separately for each leg of the flight). CAAV approved this request, and UAL has set a start date of December 11, 2004 for the initial flight out of HCMC. CAAV approved UAL's application for authority to operate daily flights out of HCMC on October 18, 2004. UAL's operations still depend on TSA's final approval of TSN airport's security plan administered by the Southern Airports Authority (SAA) of CAAV. Currently, UAL has no plans to operate flights with beyonds from Hanoi unless Tokyo becomes available as an interim point in the future.

13. (SBU) The ATA provides for unlimited third-party code-sharing agreements between U.S. carriers, licensed foreign carriers, and VNA. Currently, UAL, Delta, and AA take advantage of these opportunities. Continental and Northwest Airlines have also expressed interest in taking advantage of the provision for direct flights between the United States and Vietnam. Northwest would most likely operate a route similar to that of UAL through Hong Kong. Continental Micronesia has considered operating a route between HCMC and Hawaii via Guam. U.S. cargo carriers UPS and FedEx have yet to take advantage of the provisions of the ATA allowing direct flights. They are currently servicing the Vietnamese market from their regional hubs at Subic Bay in the Philippines and will shift to direct services when they believe the market will support such service.

14. (SBU) Vietnam Airlines would like to begin operating direct flights between the United States and Vietnam in early 2006. They currently plan to fly non-stop between HCMC and San Francisco. This is contingent upon CAAV meeting ICAO standards and passing a FAA International Aviation Safety Assessment (IASA). TSA approval of TSN airport for UAL's operations will also suffice for VNA should SAA/CAAV prove they can maintain adequate security operations in the interim. FAA conducted a Technical Review of CAAV in April 2004 and found that CAAV failed to meet minimum ICAO standards. Boeing Corporation has elected to support the next stage of a technical assistance program to help CAAV prepare for the IASA. A private consultant will be hired to help CAAV create a plan by the end of 2005 to implement the necessary oversight and management controls, as well as the legislative changes, to bring them into compliance with ICAO safety standards. Many of the authorizations and responsibilities granted to CAAV are scattered among various regulations and official decisions that do not carry the weight of law but will have to be consolidated and elevated into one law to comply with ICAO standards.

15. (SBU) Comment: With some guidance, we believe CAAV is capable of making the necessary upgrades to insure proper oversight and management of safety programs. A major issue will be the legislative reform effort that will take some time and the direct engagement of CAAV Director General Nguyen Tien Sam, also a Vice Minister of Transportation. The National Assembly (NA) already faces a backlog of high priority legislation because of commitments made under various trade agreements and preparations for joining the WTO. Vice Minister Sam will need to make an effort to have the NA give priority to this legislation. End Comment.

16. (U) Regional Representatives from TSA and FAA have cleared this cable.  
MARINE